

LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	Wong King	Student ID number:	1922248
Programme:	DBA		
Module:	Approaches to Research and Academic Communication		
Module code:	HKBM7000	Contribution to Overall Module Assessment (%):	40%
Lecturer:	Dr. Luk Chung Leung	Internal Verifier:	
Assignment Title:	In-class Presentation	Time Allowed:	15 minutes
Submission deadline:	18 July 2020	Return date of provisional marks & written feedback:	7 September 2020
Submission method:	Each students needs to present to the class a summary of the research proposal within 10 minutes. The presentation is designed to gauge the student's ability to communicate and present information related to research and academic matters. A soft copy of the PowerPoint slides used for the presentation should also be submitted via Turnitin before the presentation.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

University of Wales

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HKBM7000

Approaches to Research and Academic Communication

(Lecturer: Dr. Luk Chung Leung)

**Is Mediation alone the best Dispute Resolution Mechanism
to resolve financial disputes between Consumers and
Financial Institutions in Hong Kong?**

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31 July 2020

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1. Industry Background

Historical Development of Hong Kong Financial Market

Historically, with its strategical location in the Southern coast of China, Hong Kong has been an entrepot. Since British colonisation in mid-nineteenth century, Hong Kong has been a free port and doing import and export trade with the hinterland of China. After the setting up of the Peoples Republic of China, the United Nation imposed an embargo to China and Hong Kong became the only window for all resources in and out of China. When China adopted an open door policy in the late seventies in last century, Hong Kong became a transfer hub for goods, technology and funds for China. Hong Kong people have been acting as the middle man between China and the rest of the world.

Hong Kong is treated by international financial managers and professionals as a stepping stone to enter the most energetic and fast growing Chinese market. On the other hand, Chinese financial managers are looking at Hong Kong as one of the most promising fund raising channels and as part of their strategy for going global and become international players. Gradually, Hong Kong becomes one of the major financial centres in the world.

The reasons for Hong Kong to become one of the major financial centres in the world include, *inter alia*, the followings:

- i. low and simple taxation policy which facilitates business initiatives and innovation;
- ii. no exchange controls;

- iii. no barriers of access to the domestic market by foreign businesses;
- iv. its favourable time zone location;
- v. cross cultural background of Hong Kong people;
- vi. very effective and transparent regulations, which meet international standards;
- vii. a trusted and well-regulated regional financial centre; and
- viii. a very active and vibrant domestic financial market.

Among the reasons mentioned above, it is important that Hong Kong do have a very active and vibrant domestic market which does not have any barriers of access to any foreigners. As a major international financial centre, Hong Kong's domestic financial market includes a wide range of financial products and services provided by institutions and markets to both domestic and international customers and investors. For example, at the end of 2018, in the banking sector, there were 164 licensed banks, 17 restricted licence banks and 13 deposit-taking companies in Hong Kong.¹ There was also 49 local representative offices of overseas banking institutions. Altogether, these banks and deposit-taking companies operated 1,241 local branches in Hong Kong. In the futures and securities sector, there were more than 80,000 licensed persons/entities, including securities brokers, futures dealers, investment advisers and fund managers as well as their representatives, and around 2,000 registered financial institutions, including banks, engaging in regulated activities including fund management, dealing in and advising on securities and futures.² The vast number of local branches of these financial institutions and professionals involved in retail banking and securities demonstrated the importance of domestic retail financial market in Hong Kong. In the long run, with the

¹ Source : The Three-tier Banking System, HKMA website at <https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/the-three-tier-banking-system/> (Access: 23 July 2020)

² Source: "Public Register of Licensed Persons and Registered Institutions", SFC website at: <https://www.sfc.hk/publicregWeb/searchByRa?locale=en> (Access: 23 July 2020)

strong growth of the domestic Hong Kong financial market, Hong Kong will have greater fund flow, larger financial related employment, and boosted more economic activities and GDP.

After preliminary research, factors needed for a successful and active domestic financial market include, *inter alias*, the followings:

- i. Fair and justice;
- ii. Efficient and cost effective;
- iii. Transparent;
- iv. Good consumer protection, including a good dispute resolution system.

Likewise, it is essential for consumers of a successful domestic financial market that they know their rights will be protected by a fair and justice, efficient and cost effective and transparent dispute resolution system if there is any dispute between them and the resourceful and powerful financial institutions.

Recent Major Financial Disputes and Development of Dispute Resolution Mechanism in Hong Kong:

On 15 September 2008, one of the world's largest investment banks, Lehman Brothers Holdings Inc., filed for bankruptcy protection under Chapter 11 of US Bankruptcy Code. The firm was founded in late nineteenth century with its headquarter in New York. Before the bank collapse, it was a famous investment bank covering business worldwide, including Hong Kong, in private equity, private investment management, asset management, and equity and fixed income sales, etc.

Since 2002, Lehman Brothers had successful sales in a structured product in retail financial market in Hong Kong, a credit-linked note, called “Minibond”. The Minibond was backed by underlying collateral which lost its value substantially in 2008 because of deterioration of the global credit market. Since the Lehman related products had been sold to a the general public consumers in Hong Kong through retail banks and brokers and many of the consumers had been told that the risk involved with these products was very low risk, therefore, once the consumers found out that they had suffered substantial losses on these products, they filed enormous complaints to every reachable institutions, including the distributing banks, brokers and local authorities, including the Crime and Commercial Bureau of the Hong Kong Police, Securities and Futures Commission (“SFC”) and Hong Kong Monetary Authority (“HKMA”). On the other hand, these distributing banks and brokers disputed if they had misled the consumers. There were numerous demonstrations by these angry consumers in front of the doors of these financial institutions. In summary, the scale and impact of the Lehman Brothers-related Minibonds crisis in Hong Kong can be demonstrated by the following statistics³:

Total Amount of Disputes:	about HKD 2.7 Billion
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Total No of Investors / Bondholders:	about 31 Thousand
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No of Distributing Banks involved:	more than 16 Banks
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After provisional liquidators were appointed for some of the Lehman entities, on 2 October 2008 the Hong Kong Association of Banks (“HKAB”) set up a Task Force and tried to resolve these consumer disputes on the Lehman related investment products. Meanwhile, the

³Source: 香港經濟日報, “3.1 萬迷債事主可取回逾 85%”, 28 March, 2011, <https://invest.hket.com/article/738212/3.1%E8%90%AC%E8%BF%B7%E5%82%B5%E4%BA%8B%E4%B8%B%20%E5%8F%AF%E5%8F%96%E5%9B%9E%E9%80%BE85%25?mtc=90039> (Accessed: 12 July 2020)

Hong Kong government proposed to these distributing financial institutions to buy-back the Lehman Minibonds at current market prices.

As reported by the HKSAR Government, up to February 26, 2014:

- The Hong Kong Monetary Authorities ("HKMA") received 21,878 complaints on mis-selling of Lehman-related investment products.
- HKMA referred 3,633 complaints to the SFC for further action.
- A total of 19,391 complaints were resolved by compensations pursuant to the agreements reached between the HKMA, SFC and relevant distributing banks of the Lehman-related investment products.⁴

HKIAC Mediation and Arbitration Scheme ("the Scheme") for resolving Lehman-Brothers-related Investment Products Dispute

The Lehman-Brothers Crises not only urged the public to ask questions about the adequacy of protection given to retail investors, but also demanded a suitable dispute resolving mechanism to resolve the disputes between the powerful financial institutions and their retail consumers in Hong Kong.

At the end of October 2008, to assist the resolution of disputes between consumers and distributing banks, HKMA appointed the Hong Kong International Arbitration Centre

⁴See: HKSAR Government Press Release (2014) LCQ13: Follow-up actions taken on Lehman Brothers-related Minibonds incident. Available at: https://www.info.gov.hk/gia/general/201402/26/P201402260490_print.htm (Accessed: 12 July 2020)

(“HKIAC”) to provide mediation and arbitration services under a Pilot Scheme.⁵ In early November 2008, the Task Force of HKAB finally agreed to the government’s proposal to buy-back Lehman Minibonds at market prices, which had already caused substantial losses to the retail investors,

The HKIAC Pilot Scheme is a two-tier mediation first and then arbitration Scheme. When there was a dispute, HKMA would invite the consumer and banks to file some documentation and gather some information at this information gathering stage. At this stage, HKMA staff would try to assist the parties to settle some obvious and frivolous disputes. If no settlement reached during these initial information gathering stage, the parties can elect to proceed to the following two-stage approach to resolve their disputes.

First of all, both the customer and the bank will go through a mediation under the Scheme, which is a voluntary process and either party may choose to terminate the mediation at any time. In the mediation, a third party neutral, the mediator will facilitate the parties to settle the claim on terms agreed by both parties or to narrow the issues in dispute. In case parties agree to a settlement agreement in mediation. The settlement agreement between the parties would be enforceable in law and parties would be bound by it. On the other hand, if parties cannot settle their dispute in the mediation, non-disputed facts agreed by the parties during mediation may be applied in the subsequent arbitration or litigation.

Secondly, in case parties cannot settle their case in the prior mediation, the parties are free to agree to proceed to a subsequent arbitration. The arbitration will be a simplified

⁵The Hong Kong Monetary Authority (2008) Press Release: HKMA announces mediation and arbitration services for Lehman-Brothers-related cases. Available at: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2008/10/20081031-5/> (Accessed: 11 July 2020)

“document-only” arbitration as the issues in dispute should have likely been identified and focused during the mediation. The “document-only” arbitration is designed as an efficient and cost effective proceeding to handle simple disputes and is not designed to handle complex issues. Since the arbitration award would be final and binding on both parties, parties would be advised to seek independent legal advice at their own cost on whether to accept the arrangement of a “documents-only” arbitration or proceed to litigation to resolve their dispute.

For the mediation and subsequent arbitration, if there is any, parties are not allowed to have legal representation to participate in any of the proceedings. While HKMA and the bank in dispute would share the appointment fees and the cost of the mediator / arbitrator equally, HKMA alone would arrange the venue for the proceeding.

However, not all investors were qualified to participate in the Scheme. To resolve their disputes by the Scheme, the investors’ complaint must:

- a. related to the sale of the products which have already been referred to SFC by HKMA for further investigation, or
- b. has resulted in convicting a relevant individual or executive officer by either HKMA or SFC.⁶

In March 2011, it was reported that 85% to 90% of investment amount as recovered amount together with the ex gratia payment offered by the distributing banks have been returned back to eligible investors / bondholders.

⁶ The Hong Kong Monetary Authority (2008) Press Release: HKMA announces mediation and arbitration services for Lehman-Brothers-related cases. Available at: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2008/10/20081031-5/> (Accessed: 11 July 2020)

In March 2013, it has been reported by HKIAC that the following case statistics have been achieved for the period between November 2008 and February 2010⁷:

No of mediation cases:	170
Completed Mediation cases:	109
No of settled cases:	98
Mediation settlement /successful rate:	87%
Amount involved:	\$80 thousand to\$90 million

Setting up of Financial DisputeResolution Centre Limited (“FDRC”)

In mid-2012 after successful experience in resolving the Lehman Brothers compensation disputes by the mediation and arbitration services provided by HKIAC, FDRC was set up to resolve financial disputes between retail consumers and financial institutions. Set-up costs and operation costs in the first few years were provided jointly by the government, HKMA and SFC. FDRC’s task is to resolve financial disputes between licensed financial institutions and individual consumers. The maximum claimable amount involved in the dispute was initially set at HK\$500,000 and has been increased to the current amount of HK\$1,000,000 (“Maximum Claimable Amount”).⁸

⁷ See: Oriental Daily Net, ‘ 迷 債 和 解 成 功 率 88%’, 1 Mar 2010. Available at: http://orientaldaily.on.cc/cnt/finance/20100301/00202_011.html (Accessed: 9 July 2020)

⁸See: Article 2 of the FDRC Terms of Reference, April 2020, FDRC

A Financial Dispute Resolution Scheme (“FDRS”) is operated by FDRC to resolve any “Eligible Disputes” between the consumers and the licensed financial institutions (“FI”). Under the SFC Code of Conduct for Persons Licensed by or Registered with the SFC, a licensed or registered person should comply with the FDRS for managing and resolving disputes administered by the FDRC in full and be bound by the dispute resolution processes provided for under the FDRS . Further, under the Banking Code of Practice, banks are committed to refer their financial disputes related to insurance products, retirement plans and investment products as agents for third party service providers under the amount of HK\$1,000,000 to FDRC. All applicants, not only FIs, but also any Eligible Claimant (“EC”), are bounded by the FDRC Terms of Reference. In case of any non-compliance, FDRC may send a non-compliance letter to the FI and a copy of such letter would also be send to the Regulators, i.e. HKMA or SFC.

Similar to the HKIAC Scheme, not all financial disputes are acceptable by FDRC, only those disputes satisfy the following definition of “Standard Eligible Dispute” as defined in the FDRC Terms of Reference will be handled by FDRC:

- “(a) the dispute must be an individual Customer Claim brought by an EC or an FI with signed consent by the Parties;
- (b) an EC has filed a Written Complaint to the relevant FI and received a Final Written Reply issued by the FI; or it has been more than 60 days from the date he filed the Written Complaint with the relevant FI and has not received a Final Written Reply from the relevant FI;
- (c) the financial services provider involved in the dispute must be an FI;
- (d) the dispute must be of a monetary nature;

- (e) the amount for each individual claim does not exceed Maximum Claimable Amount; and
- (f) the dispute must arise out of a contract between the EC and the FI that was entered into or arose in Hong Kong, or any act or omission of the FI in connection with the provision of a financial service to an EC where the FI acted as an agent.”⁹

Likewise, not every claimant is qualified to submit his / her claim for the handling by FDRC. Only those claimants who satisfy the following definition of EC will be able to bring his / her claim for FDRC’s handling:

- “(a) an individual having or who had a customer relationship with an FI or who has been provided with a Financial Service;
- (b) a sole proprietor having or who had a customer relationship with an FI or who has been provided with a Financial Service; or
- (c) an SE¹⁰ (including an FI that qualifies as an SE) having or who had a customer relationship with an FI or who has been provided with a Financial Service.”¹¹

⁹See Article 12 of the FDRC Terms of Reference, April 2020, FDRC

¹⁰According to FDRC Terms of Reference of FDRC, ‘SE’ means a Small Enterprise, being a limited company or a partnership, whose status are as follows according to its latest financial year end statement:

- (i)an annual turnover not exceeding HK\$50 million;
- (ii)gross assets not exceeding HK\$50 million; and
- (iii)not more than 50 employees in Hong Kong.

¹¹See Article 13 of the FDRC Terms of Reference, April 2020, FDRC

Therefore, before applying to the FDRC, the EC should send a written complaint to the relevant FI. Then the FI shall make a final reply in writing in response to EC's complaint and advising the EC that he may refer the dispute to the FDRC if it was not resolved. After the application satisfied the above mentioned definition of Eligible Dispute and EC, it will be accepted by FDRC. Parties should then decide what process do they want to go for in the Mediation and/or Arbitration, such as the "Mediation first Arbitration next" two-tiers dispute resolution mechanism system similar to the HKIAC model, and promised to take part in the Mediation and/or Arbitration in good faith. In other words, parties has to decide at this moment, what their choice of dispute resolution process is, whether it will only be mediation, or only be arbitration, or mediation then arbitration. Furthermore, if the parties opt for "mediation only", after mediation, if settlement can be reached, parties shall comply with the terms of Mediated Settlement Agreement; otherwise, if no settlement is reached and parties agreed to go for arbitration, then a "Notice to Arbitrate" may be send by either party to the other party to commence the arbitration..

After FDRC received an application and payment of the application fee, it will assign a case officer to handle the case. Further information may be required from the applicant by the case officer to consider if the application fulfils the criteria as an Eligible Dispute mentioned herein above. Then based on the "FDRS Guidelines on Intake Criteria of Cases", the case officer will decide to accept the application or not.¹²

The following Table is a comparison between the total number of HKMA and SFC complaints and cases handled by FDRC for the period between 2012 and 2019:

¹² FDRS Guidelines on Intake Criteria of Cases by FDRC dated February 2014, Available at: https://www.fdr.org.hk/en/doc/FDRS_Guidelines_on_Intake_Criteria_of_Cases_2014_en.pdf (Access: 24 July 2020)

Table 1: Total Number of HKMA and SFC Complaints as compare to Cases Handled by FDRC in 2012 to 2019

Year	2012	2013	2014	2015	2016	2017	2018	2019
HKMA Complaints Received*	916	1,115	1,234	1,608	1,745	1,786	1,948	1,950
Conduct-related issues	273	237	151	252	247	237	213	215
General banking services	643	878	1,083	1,356	1,498	1,549	1,735	1,735
SFC Complaints Received **	1,969	1,421	1,648	2,119	2,056	2,322	2,689	6,034
Related to Lehman Brothers	145	-	-	-	-	-	-	-
Conduct of licensed intermediaries and registered institutions	437	276	342	702	372	450	379	469
Listing-related matters and disclosure of interests	462	433	403	532	631	739	779	3,485
Market misconduct	465	295	311	277	265	221	322	364
Products	5	7	11	1	9	8	12	8
Other financial activities	439	410	579	487	630	185	503	851
Miscellaneous	16	-	2	120	149	719	694	857
HKMA & SFC Complaints Received Subtotal	2,885	2,536	2,882	3,727	3,801	4,108	4,637	7,984
FDRC - Enquiries received***	1,054	2,192	2,004	1,318	1,111	775	955	797
Actual acceptance of enquiries / complaints	584	1,164	992	78	77	94	86	70
Prima Facie Ineligible Disputes	470	1,028	1,012	755	587	352	487	333
FDRC - Case received	16	31	35	21	39	24	15	20
Rejected case	3	2	3	1	7	8	5	5
Actual acceptance of cases	13	29	32	20	32	16	10	15
% of Cases Accepted by FDRC as compare to HKMA & SFC Complaints	0.45%	1.14%	1.11%	0.54%	0.84%	0.39%	0.22%	0.19%
Source of Data:								
* Data Extracted from 2012 to 2019 HKMA Annual Reports								
** Data Extracted from 2012 to 2019 SFC Annual Reports								
*** Data Extracted from 2012 to 2019 FDRC Annual Reports								

Problem Questions:

It is important for Hong Kong financial industry and/or domestic financial market to maintain a good relationship and trust between the financial institutions and its customers, or the consumers, such that consumers should know that if there is any dispute between the capital rich and powerful financial institutions and them, they will have an appropriate dispute resolution mechanism to protect their interest and to resolve disputes fairly.

From Table 1, when comparing the total number of complaints received by HKMA and SFC with the cases handled by FDRC, the percentage of cases handled by FDRC can be as low as less than one percent. The number of cases handled by FDRC seems surprisingly low for an active financial centre with a population of 7+ million people like Hong Kong.

It is submitted that possible reasons for the low utilisation of the FDRC include, *inter alias*, the following reasons:

1. Low publicity of the FDRC Services to the consumers;
2. The dispute resolution mechanisms set by the FDRS is not understood by the consumers;
3. The threshold for accepting cases handled by FDRC is too high; and/or
4. The dispute resolution mechanisms set by the FDRS is not accepted and /or trusted by the consumers.

However, it is argue that reasons 1 and 2 are not likely to be the dominate causes for the low utilisation of the FDRS.

Firstly, by observation, FDRC has promoted its services by advertisement in prominent locations in the Mass Transit Railway system and also in local popular television broadcasting. Advertising on these two mass media does have the widest coverage to public audience in Hong Kong. It is hard to believe that public consumers in Hong Kong are not aware of the services provided by FDRC. In addition, as mentioned herein above, under the “SFC Code of Conduct for Persons Licensed by or Registered with the SFC” and “Banking Code of Practice”, a licensed or registered person and/or banks are respectively committed to refer their financial disputes with consumers which is below the amount of HK\$1,000,000 to FDRC. Accordingly, the dispute resolution service provided by FDRC is almost monopolised, but yet the utilisation rate seems surprisingly low.

Secondly, since early nineties, Hong Kong government has adopted mediation and arbitration as the dispute resolution mechanisms in all major government construction contracts. In 2009, despite mediation is said to be voluntary for litigants to participate, but court directions do “strongly urge” litigants to participate in mediation.¹³ Various court directions provided that in case any one party involved in litigation refused to participate in mediation or is not behave reasonably or in good faith in mediation, the court may scansion that party by costs.¹⁴ Further, there are various organisations, such as the Department of Justice, HKIAC, Hong Kong Mediation Centre, etc, have for a long time persistently promoted mediation and arbitration as the preferred means for resolving various civil disputes. Advertisements, seminars, conferences and training courses have been conducted by these organisations to promote and explain the operation of mediation and arbitration. According to the HKIAC’s Panel and List of

¹³ See: Practice Direction 31 of High Court of Hong Kong, 14th of August 2014, Hong Kong Judiciary

¹⁴ See: Order 62 rule 5(1)(aa) of the Rules of High Court, Cap 4A, Laws of Hong Kong

Arbitrators¹⁵ and Hong Kong Mediation Accreditation Association Limited's List of General Accredited Mediators¹⁶, there are respectively 771 arbitrators and 1,679 accredited mediators in Hong Kong. Accordingly, it is not difficult for the public in Hong Kong to understand how mediation and /or arbitration operated. Nevertheless, as part of this proposed research, it may also touch upon the reasons for the low utilisation of FDRC for resolving financial disputes between consumers and financial institutions. This is because even the research can identify the best dispute resolution mechanism to resolve consumer financial disputes, practically, without an effective and efficient media or organisation to implement the best dispute resolving mechanism, the contribution of the proposed research would only be lip services to the public in Hong Kong.

There may probably be many reasons why the utilisation of the FDRC services is relatively low. In the proposed research, it will focus on the topic related to one of these reasons, which is the identification of the best dispute resolution mechanism for resolving consumer financial disputes. Assuming mediation alone is the best dispute resolution mechanism for resolving consumer financial disputes, this hypothesis will be tested. In particular, the problem question to ask in the proposed research would specifically include, *inter alia*, the followings:

- i. Is the monopolised FDRC two-tier system an appropriate dispute resolution mechanism to resolve consumer financial disputes in Hong Kong?
- ii. What is the best means of resolving consumer financial disputes in Hong Kong?

¹⁵ See: Panel / List of Arbitrators, Hong Kong International Arbitration Centre, Available at: <https://www.hkiac.org/arbitration/arbitrators/panel-and-list-of-arbitrators> (Accessed: 25 July 2020)

¹⁶ See: Panel of General Mediators, Hong Kong Mediation Accreditation Association Limited, Available at: http://www.hkmaal.org.hk/en/mp_general.php (Accessed: 25 July 2020)

- iii. Is Mediation alone the best dispute resolution mechanism to resolve financial disputes between consumers and financial institutions in Hong Kong?

Definition of Problem

To answer the final question and to find out: “Is Mediation alone the best dispute resolution mechanism to resolve financial disputes between consumers and financial institutions in Hong Kong? ”, the following elements needed to be defined:

1. What is Mediation?
2. Who are the Consumers referred to in this proposed research?
3. Who are the Financial Institutions referred to in this proposed research?

1. What Is Mediation?

In general as mentioned by a HKMA spokesman:

“Mediation is a form of voluntary dispute resolution which involves appointing a neutral mediator, who will bring the two parties together with the aim of settling claims in a speedy, confidential and amicable way, or of narrowing the issues in dispute ...”¹⁷

¹⁷ The Hong Kong Monetary Authority (2008) Press Release: HKMA announces mediation and arbitration services for Lehman-Brothers-related cases. Available at: https://www.hkma.gov.hk/eng/news-and-media/press-releases/2008/10/2008_103_1-5/ (Accessed: 11 July 2020)

In practice, there are several kinds of mediations, such as facilitative mediation, evaluative mediation, etc. However, in Hong Kong, the term mediation has been defined legally. Under s.4 of the *Mediation Ordinance*, Cap 620, “Mediation” is defined as:

“(1) For the purposes of this Ordinance, mediation is a structured process comprising one or more sessions in which one or more impartial individuals, without adjudicating a dispute or any aspect of it, assist the parties to the dispute to do any or all of the following:

- (a) identify the issues in dispute;
- (b) explore and generate options;
- (c) communicate with one another;
- (d) reach an agreement regarding the resolution of the whole, or part of the dispute.”¹⁸

In other words, the mediation defined in the Mediation Ordinance only covers “facilitative” mediation and not any other kind. Accordingly, the proposed research will adopt the definition of mediation as defined by the Laws of Hong Kong.

2. Who are the Consumers referred to in this proposed research?

According to the definition provided in a Legal Dictionary:

¹⁸ See: Section 4 of the *Mediation Ordinance*, Cap 620, Laws of Hong Kong

“[Consumer is] One who uses a commodity or service for private consumption. A person deals as a consumer in a contract for the supply of services and goods if the person neither makes the contract in the course of business and the other party to the contract does make the contract in the course of a business and the goods passing or the services provided under or in pursuance of the contract are a type ordinarily supplied or provided for private use, consumption or benefit: *Supply of Services (Implied Terms) Ordinance* (Cap 457) s 4(1); *Unconscionable Contracts Ordinance* (Cap 458) s 3(1).”¹⁹

As mentioned herein above, in the FDRC Terms of Reference, there is a definition of “Eligible Claimant” (“EC”)²⁰. As the definition of EC referred thereat is more specifically targeted those consumers involved in financial disputes, therefore, the definition of EC would be adopted to define consumers referred to in the proposed research.

3. Who are the Financial Institutions referred to in this proposed research?

Similarly, as mentioned herein above, in the FDRC Terms of Reference, there is also a definition of “Financial Institutions” (“FI”). Definition of Financial Institutions under the “Terms of Reference of FDRC” is:

“‘FI’ means a financial institution or a financial services provider authorized by the HKMA or licensed by the SFC, but excludes those financial

¹⁹See: LexisNexis Hong Kong (2004) Hong Kong Bilingual Legal Dictionary, LexisNexis Hong Kong, 1stEd, p.209.

²⁰ See: FDRC (2020) Terms of Reference of FDRC, FDRC, paragraph 13

institutions which only carry on Type 10 regulated activity (i.e.provision of credit rating services) under the *Securities and Futures Ordinance* (Cap. 571)”²¹

As the definition of FI refers thereat is more specifically focused to those financial institutions involved in consumer financial disputes, therefore, the proposed research would adopt the definition of FI as financial institutions or a financial services providers authorized by the HKMA or licensed by the SFC, but excludes those financial institutions which only carry on provision of credit rating services.

In addition, in order to provide a complete analysis of whether the mediation alone is the “best” Dispute Resolution Mechanism to resolve consumer financial disputes in Hong Kong, the proposed research will also compare “mediation alone” with the following dispute resolution mechanisms:

- Arbitration alone;
- The two-tired Med / Arb and/or Arb /Med;
- Ombudsman System in the United Kingdom; and
- Litigation in Hong Kong.

Research Objectives

For Hong Kong to remain as a major financial centre in the world, it is important that Hong Kong remains as a trusted and well-regulated regional and global financial centre.

²¹ See: FDRC (2020) Terms of Reference of FDRC, FDRC, paragraph 2.1, p.4

Therefore the research objectives of the proposed research is to review and examine if mediation alone is the best dispute resolution mechanism which would be preferred and trusted by consumers to resolve their financial disputes with financial institutions, such that domestic financial market can grow stronger and Hong Kong can remain as one of the leading and active financial centres in the world.

Definition of Variables

In order to decide whether mediation alone is to be considered as the best dispute resolution mechanism to resolve financial disputes between consumers and financial institutions in Hong Kong, the following factors will be treated as variables for the hypotheses:

- Fairness and justices
- Cost Effective
- Quick and Efficient
- Neutral Forum in International / Cross-border Disputes
- Possibility to select the Third Party Neutral
- Consensual and Flexible Procedure
- Confidentiality and Privacy
- Good Commercial Relationship between Parties
- Finality
- Enforceability in International / Cross-border Dispute

Further, the following variables in relation to consumer characteristics and nature of financial disputes will also be examined to find out if any of them will have any impact to the

hypothesis. For example, will consumers in a certain age group and education level involved in certain type of financial dispute have a different consideration for any particular dispute resolution mechanism as a better mechanism than the other.

I, As related to Consumer Characteristics:

- Age
- Gender
- Education
- Knowledge about Dispute Resolution Mechanisms
- Experience in Handling Financial Disputes
- Special Characteristic for Hong Kong Consumers

II, As related to the Financial Disputes:

- Amount of Disputes
- Nature of Disputes about different financial products and services defined by FDRC²²

Framework of Relations

Subject to further literature review, it is proposed that the relationship between the variables and the hypothesis are as follows:

- Fairness and justness: The fairer process, the better dispute resolution mechanism

²² See: FDRC (2019) Annual Report 2019, p.27, Available at <https://www.fdrc.org.hk/en/html/publications/annualreport.php> (Accessed: 9 July 2020)

- Cost Effective: The more cost effective process, the better dispute resolution mechanism
- Quick and Efficient: The quicker and more efficient process, the better dispute resolution mechanism
- Neutral Forum in International / Cross-border Disputes: If the process applicable to international disputes, the better dispute resolution mechanism
- Probability to selected Third Party Neutral: If parties are able to select expert third party neutral, the better dispute resolution mechanism
- Consensual and Flexible Procedure: More consensual and flexible procedure applied, the better dispute resolution mechanism
- Confidentiality and Privacy: More confidential the process, the better dispute resolution mechanism
- Commercial Relationship between parties, the longer commercial relationship maintained between the parties, the better dispute resolution mechanism.
- Finality: If difficult to appeal, or not appealable, the better dispute resolution mechanism
- Enforceability in International / Cross-border Dispute: If result can be enforced internationally, the better dispute resolution mechanism

As mentioned before, relations between the following variables and the quality of the dispute resolution mechanism will also be examined and identified from the research:

As related to Consumer Characteristics:

- Age
- Gender
- Education

- Knowledge about Dispute Resolution Mechanisms
- Experience in Handling Financial Disputes

As related to the Financial Disputes:

- Amount of Disputes
- Nature of Disputes about Financial Products and Services

Research Method

The proposed research will be conducted by a survey by sending questionnaires to collect data from the following respondents:

- Consumers;
- Financial Institutions; and
- Mediators who have experience in resolving consumer financial disputes by mediation and/or other dispute resolution mechanisms.

In addition, secondary data related to resolving consumer financial disputes by various dispute resolution mechanisms as impacted by different variables will be examined by reviewing the following literatures:

- Journals,
- Articles,
- Case Reports,

- Reports from Government or Public Bodies, i.e.FDRC, HKMA, SFC, etc.
- News Clippings.

Sampling

As mentioned herein above, data will be collected from questionnaires send to samples of the followings:

- Consumers;
- Financial Institutions; and
- Mediators who have experience in resolving consumer financial disputes by mediation and other dispute resolution mechanisms.

Sampling from Consumers:

Snowball sampling will be applied to identify respondents to answer the questionnaires. The samples will be identified as those acquaintances to the researcher. Then by referral of these acquaintances, more respondents would be identified and invited to answer the questionnaires. This referral repeated again and again from those willing respondents and more and more respondents would be identified again and again. With limited resources on time and money, it is proposed that data will be collected from about 100 adult consumers, who have social demography, in terms of age and gender, similar to the population of Hong Kong as indicated in data collected by the Census and Statistic Department of Hong Kong on 31 March 2020.

Sampling from Financial Institutions:

Questionnaires would be sent by email to the 186 financial institutions included on the list of “HKMA List of Banks’ Contact Persons for Handling Customer Complaints” as updated on 10 July 2020.²³ Questionnaires would also be sent by email to the 3,109 financial institutions included on the list of SFC licensed corporations as updated on 10 July 2020.²⁴

Sampling from Mediators:

Questionnaires would be sent to the Accredited Mediators included on the “FDRC List of Mediators and Arbitrators” at the end of 2019. It is expected that after eight years of FDRC operation, most, if not all, of these accredited mediators would have actual mediation experience as assigned by the FDRC. Further, after reviewing the background of these accredited mediators, it is noted that more than half of them do have legal qualifications and expected to have other dispute resolution experiences, including arbitration and /or litigation, etc.

Measures

²³ See: HKMA (2020) Complaints about Banks, HKMA, Available at: <https://www.hkma.gov.hk/eng/smart-consumers/complaints/complaints-about-banks/> (Accessed :10 July 2020)

²⁴ See: SFC Annual Report 2019 – 20, p.37, SFC, Available at: https://www.sfc.hk/web/files/ER/Annual%20Report/2019-20/EN/SFC%20Annual%20Report%202019-20_EN.pdf (Accessed :10 July 2020)

In general a 5-point Likert scale will be set for the questionnaires to collect answers from the samples. In general, Ordinal scale will be used to measure most of the following variables and Nominal scale will be used to measure the ranking for the preference of the various dispute resolution mechanisms from the consumers, financial institutions and accredited mediators:

- Fairness and justices: Level of fairness felt by the parties
- Cost Effective: Amount of money (\$) required in the dispute resolution process
- Quick and Efficient: Time (Days) required to resolve the dispute resolution process
- Neutral Forum in International / Cross-border Disputes: Applicability of the process to resolve International Disputes
- Probability to selected Expert Third Party Neutral: Whether there is a probability to select Expert Third Party
- Neutral in the dispute resolution process: If the dispute resolution process is neutral or not
- Consensual and Flexible Procedure: Applicability of consensual and flexible procedure in the dispute resolution process
- Confidentiality and Privacy: The number of third party has knowledge about the dispute resolution process and/or its result
- Commercial Relationship: The amount (\$) of transaction after the dispute resolved.
- Finality: Is the result of the dispute resolution process appealable

- Enforceability in International / Cross-border Dispute: Can the result be enforceable in other countries, if so, the number of country that the result can be enforceable

Proposed Data Collection and Processing

As mentioned herein above, questionnaires will be collected from the following samples:

- Customers: Data from consumers will be collected by Questionnaires through "snowball sampling" method.
- Financial Institutions: Questionnaires will be send to Financial Institutions by emails in according to the “HKMA List of Banks’ Contact Persons for Handling Customer Complaints” as updated on 10 July 2020 and SFC licensed corporations (A total of about 3,109 contacts need to be send out by email)
- Mediators: Questionnaires will be send to Accredited Mediators in according to the “FDRC List of Mediators and Arbitrators” at the end of 2019 (A total of about 55 Mediators and Arbitrators need to be send out by mail or email.

Further, depending on the response from the above respondents, interviews may be conducted with selected respondents if appropriate.

Data Analyses to be Used²⁵

Firstly, the frequency distribution of the individual variables responded by the sample will be compiled and examined.

Secondly, the respondents' preference and priority to each variable, i.e, how is certain age group with a particular gender will rank their preference of the variables, will be reviewed and examined.

The result of the above will be presented in a crosstabulation manner and Chi-square statistic will be applied to test the statistical significance and strength of association of cross-tabulated variables. Then the null hypothesis will be tested for rejection or not.

Expected Findings and Recommendations

Expected Findings:

After completion of the proposed research, the follows are the expected finding of the proposed research:

- What are the special Characteristic of Consumer Financial Disputes in Hong Kong;

²⁵ Subject to modification upon completion of the subsequent courses: HKBM7003 Qualitative Research Methods and HKBM7004 Quantitative Research Methods in the DBA Programme.

- What are the special Characteristic of Consumers in relation to different variables;
- The pros and cons of various Dispute Resolution Mechanisms;
- Examine and review the existing Consumer Financial Dispute in Hong Kong;
- Resolution Mechanism used by the FDRC in Hong Kong;
- Is there any one Dispute Resolution Mechanism which is “best” to resolve Consumer Financial Disputes for Hong Kong consumers.

Expected Recommendations

The followings are the expected recommendations of the proposed research:

- Whether mediation alone will provide the best consumer financial dispute resolution mechanism in Hong Kong;
- Improvement for the existing consumer financial dispute resolution mechanism used by the FDRC in Hong Kong, if there is any

Report and Organization

Research Report:

Written dissertation will be submitted with the following chapters proposed:

1. Introduction to the Research (Research Objectives, Problem Question, Methodology, etc)
2. Review historical development of consumer financial disputes resolution mechanisms in Hong Kong
3. Introduction of various disputes resolution mechanisms commonly adopted to resolve consumer financial disputes
4. Examine the FDRC scheme of dispute resolving mechanism
5. Literature review for principles related to various dispute resolving mechanisms
6. Analyse data collected from questionnaires
7. Conclusions and Recommendations:
 - (1) Evaluate if mediation alone is the best means for resolving consumer financial disputes in Hong Kong; and
 - (2) if there is any recommendations for improvement to the current FDRC dispute resolution system and/or other follow ups.

Appendix I: References

Appendix II: Bibliography

Report and Organization

Research Organization:

In terms of resources, the proposed research is to be conducted by a DBA candidate alone with assistance from his personal assistant.

As the resources is limited, the distribution and collecting questionnaires and analysis of data may be out sourced to a reputable marketing research agency. The researcher will organise and monitor the process and review the performance of the out sourced agency to ensure the data collected and analysed are suitable for this proposed research.

Time Schedule for the Proposed Research

- Preliminary review of related legislature, reports and court cases, etc in relation to the various dispute resolution mechanisms: 1st - 15th month
- Prepare Questionnaires to be distributed to accredited mediators, consumers and financial institutions: 4th – 5th month
- Collecting Questionnaires from respondents: 6th – 7th month
- Interview with respondents, if needed: 8th – 9th month
- Data Analysis: 10th – 11th month
- Draft Dissertation Outline and review with Supervisor : 12th – 13th month
- Finalize Dissertation Outline and confirm Title of Chapters: 14th month
- First Draft of Dissertation: 15th – 19th month
- Final Draft of Dissertation: 20th – 23rd month
- Final Submission: 24th month

King Wong,

Student No: 1922248

30th July 2020

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Appendix

Table 1:	FDRC – Nature of Enquiries (2019 -2019)
Table 2:	FDRC – Nature of Enquiries about Financial Product and Services (2019 -2019)
Table 3:	Cases Handled by FDRC (2012 – 2019)
Table 4:	FDRC – Nature of Application Received (2012 – 2019)

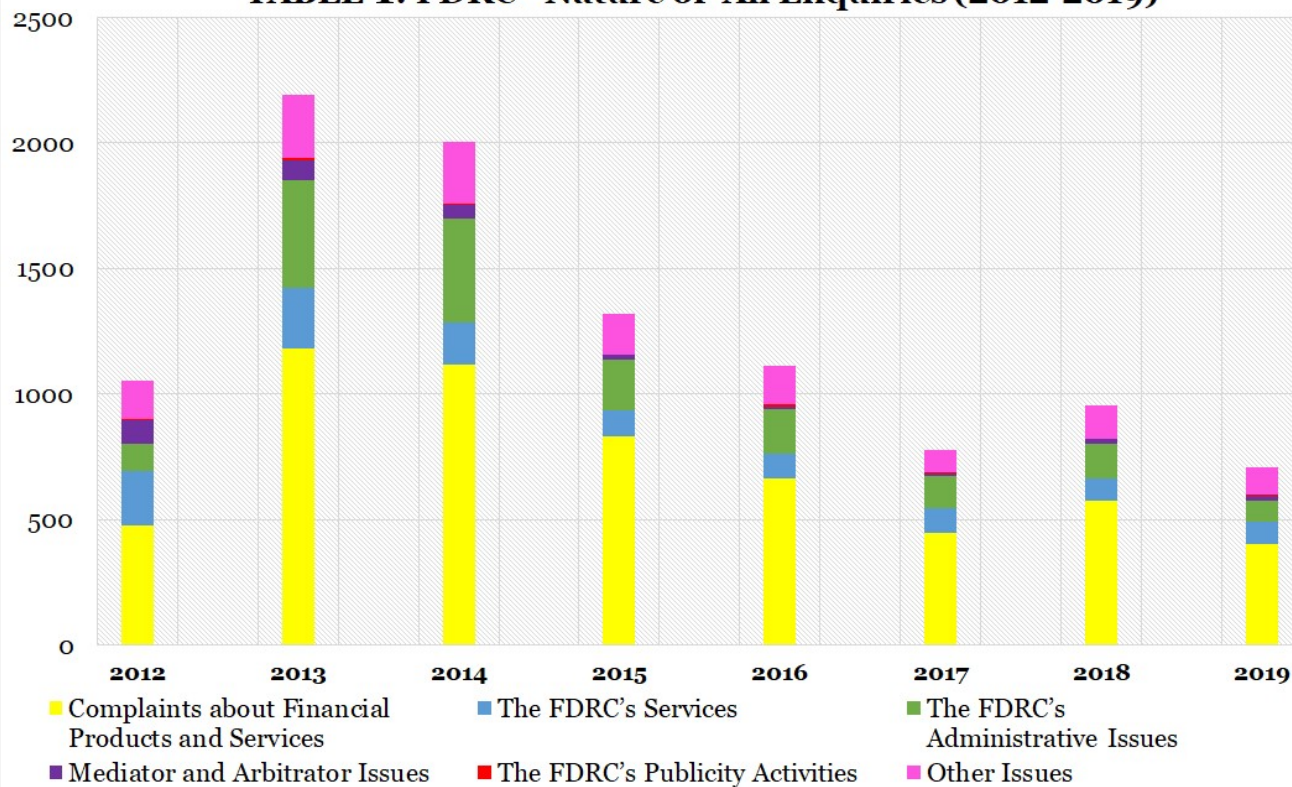
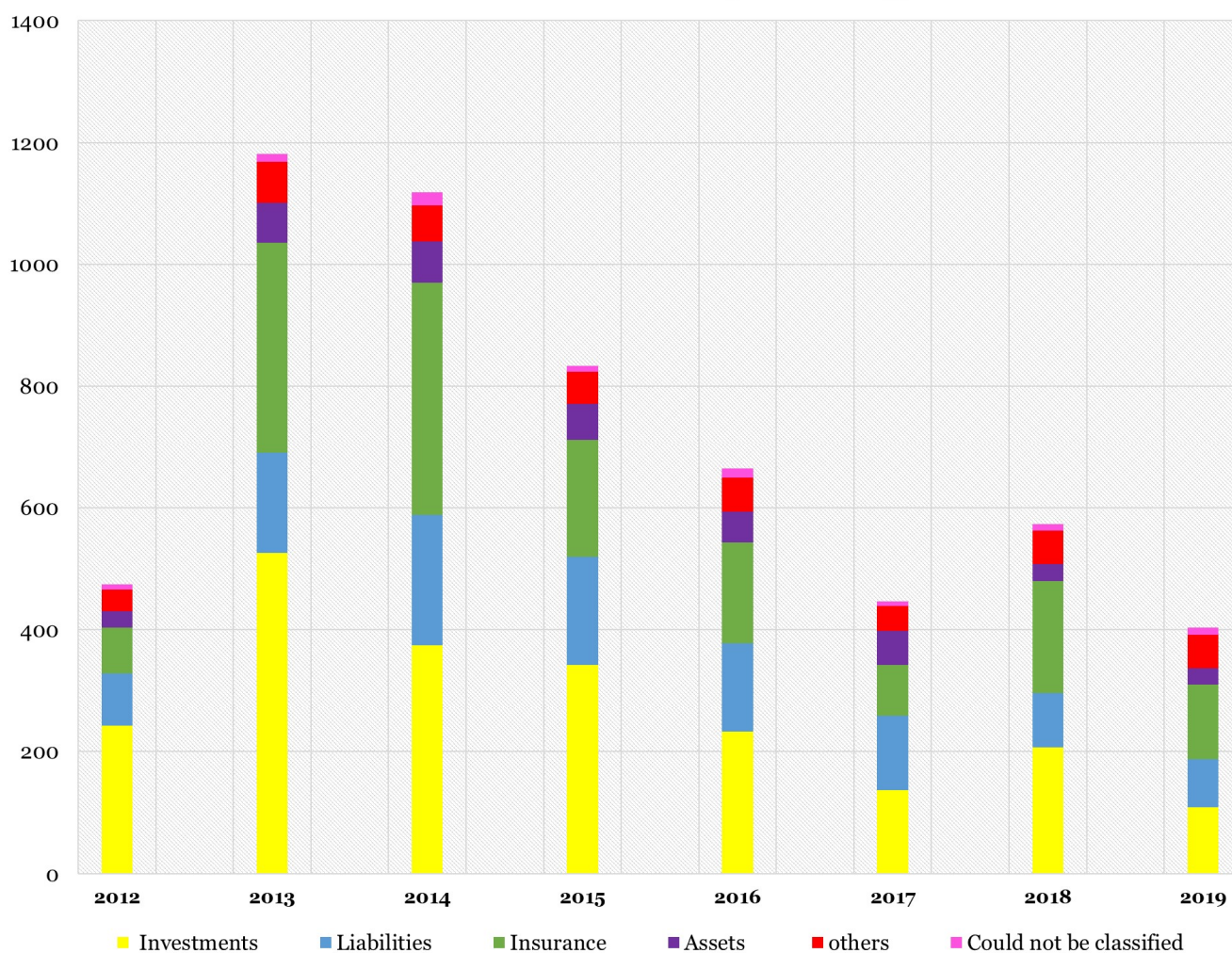
TABLE 1: FDRC - Nature of All Enquiries (2012-2019)**TABLE 2 : FDRC - Nature of Enquiries about Financial Products and Services (2012 - 2019)**

TABLE 3 : Cases Handled by FDRC (2012 - 2019)

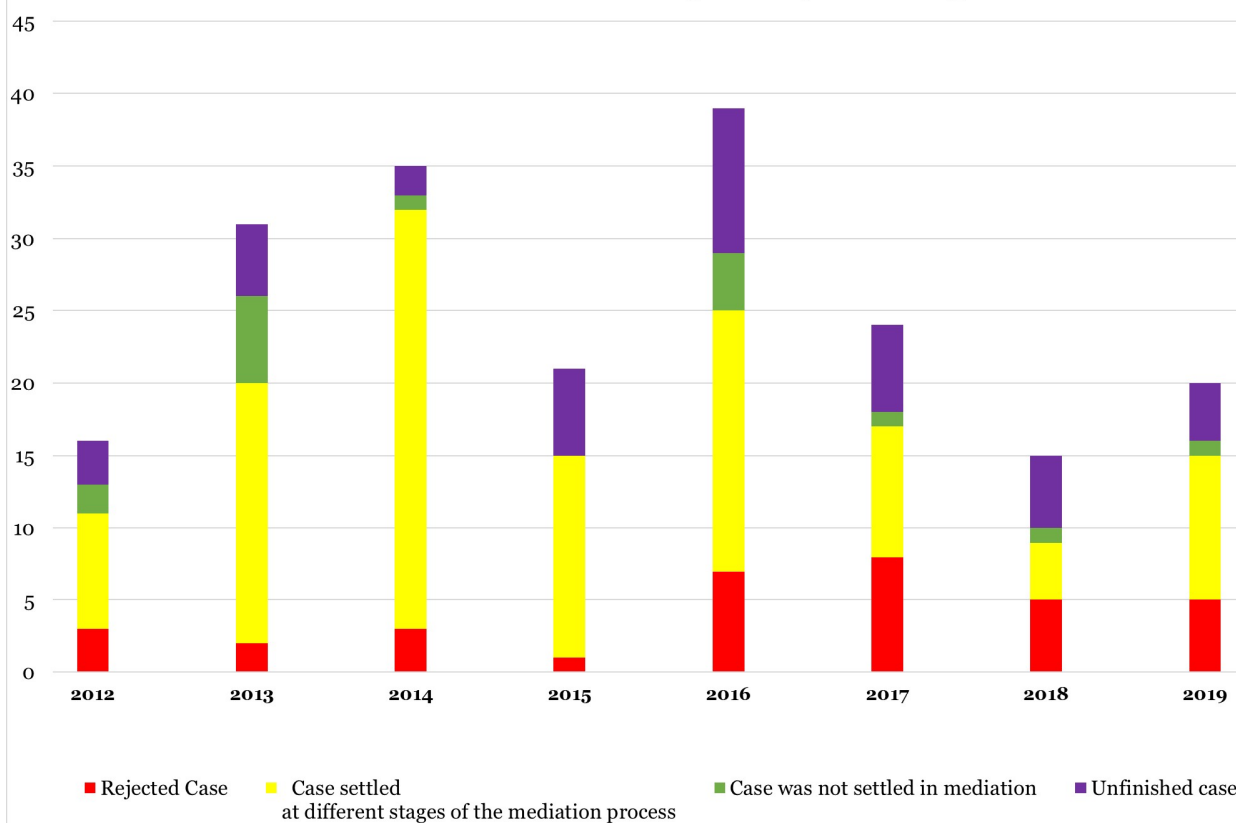


TABLE 4 : FDRC - Nature of Applications Received (2012 - 2019)

